AQUITAINE COMPANY OF CANADA LTD. 1969 ANNUAL REPORT

COVER:

The embroidered tapestry gracing one wall of the Aquitaine boardroom in Calgary depicts the huge gas and sulphur plant and its surroundings at Lacq, in the Bearn foothills of the Pyrenees. The plant is owned by the Company's parent, Société Nationale des Pétroles d'Aquitaine.

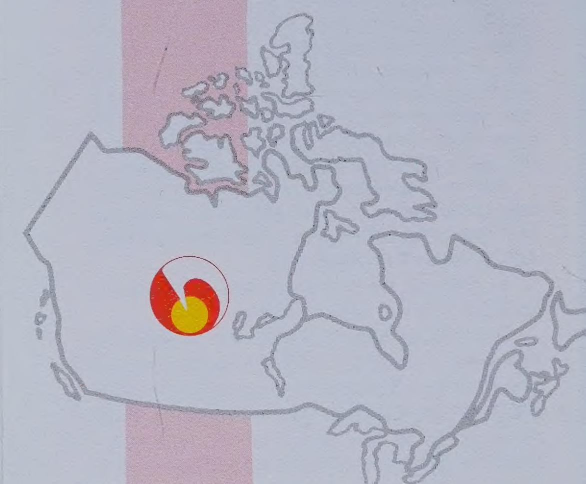
The origins of the Company are therefore to be found in this area of the historic southern French province known as Aquitaine.

AQUITAINE COMPANY OF CANADA LTD.

1969 ANNUAL REPORT

Une édition en français de ce rapport est disponible sur demande.

AQUITAINE COMPANY OF CANADA LTD.



PROGRESS REPORT
and Income Statement

For the six month period ended June 30, 1969

To The Shareholders

OPERATIONS

Exploration:

Exploration and development drilling continued actively during the second quarter.

A number of structure test holes and eight wells were drilled on the Aquitaine-Banff shallow gas play at Cold Lake, Saskatchewan, during this quarter, resulting in five Blairmore gas wells. Nine Blairmore gas wells (4.3 net to Aquitaine) have been completed to August 1 in the area, proving up sufficient reserves to meet the requirements of Saskatchewan Power Commission, with whom arrangements for gas sales have been made. The initial income from the sale of this gas is expected in December of this year.

Still in Saskatchewan, at Bromhead, one well was completed as a dual zone oil producer and two have been abandoned. The Company has a 12½ % interest in these wells.

In Alberta, the Company had an interest of 20.25 % in a dry hole at Zama.

At Ricinus, Alberta, a deep test in which the Company's interest is 15% was commenced in late June on a 640 acre lease purchased in April, 1969 for $1,526,000. This well, located about seven miles to the south of the Company's Strachan gas wells will help to evaluate further lands in the area in which the Company's interest is 90 %.

Preparations for the drilling of the Company operated Aquitaine et al Hudson Walrus A-71 well, in Hudson Bay, have proceeded on schedule. The drilling barge and supply vessels were in the Bay at the end of July, and drilling operations will commence in early August as soon as the ice has cleared the location. Depending on drilling and weather conditions encountered, a second exploratory well may be possible before the barge is required to move out of the area for the winter.

The Company, as operator for another group, plans to drill two wells on the Hudson Bay shoreline in Ontario, near the Manitoba border, in summer 1969.

Aquitaine has a 25% interest in these Hudson Bay area projects.

The Company has also recently acquired some 38,000 acres of first priority rights in the North Slope of Alaska, and intends to further its participation in exploration activity in that State.

During this quarter a general reconnaissance has started and is in progress on the mining permits acquired by the Company.

Production

Net production of crude oil in the first half of 1969 was 2,235,772 barrels, up from 1,786,000 barrels in the same period last year. Part of this increase is attributable to higher allowables for a number of Rainbow pools, as a result of an enhanced recovery scheme approved by the Oil and Gas Conservation Board, which became effective May1, 1969.

Financial

Net income of the Company during the first half of 1969 increased by more than 50% over the same period in 1968, reaching $2,880,000 compared with $1,908,000 at June 30 last year. Net cash from operations exceeded $3,500,000, compared with $2,345,000 last year. In early May, 1969, the Company received a cash payment of $5,062,500 as a prepayment on account of future gas sales in the Strachan area.

In June the Company concluded a successful common share offering to the public, selling 1,650,000 newly issued shares primarily in the United States and 550,000 primarily in Canada. Net proceeds to the Company exceeded $52,500,000. Application has been made for listing on the American Stock Exchange and it is expected the Company's issued shares will be called for trading in late August.

Aquitaine Company Of Canada Ltd.

CONSOLIDATED STATEMENT OF INCOME

For The Six Month Period Ended June 30

	1969	1968
INCOME		
Production and other operating revenue, after royalties	$5,346,480	$4,137,027
DEDUCT		
Operating expenses . . .	686,177	248,324
Gen. and Admin. expenses .	488,514	387,389
Interest on long term debt (net of interest income of $858,858 in 1969; $89,056 in 1968)	627,147	1,156,041
	1,801,838	1,791,754
NET CASH FROM OPERATIONS . .	3,544,642	2,345,273
DEDUCT NON-CASH EXPENSES		
Provision for Depletion . .	527,684	335,942
Provision for Depreciation .	136,865	101,197
	664,549	437,139
NET INCOME FOR THE PERIOD . . .	$2,880,093	$1,908,134
NET INCOME PER SHARE (On weighted average basis)	17.3¢	13.6¢

THIS STATEMENT IS UNAUDITED AND SUBJECT TO YEAR END ADJUSTMENT

DIRECTORS

WILLIAM D. CLARK
Secretary, Aquitaine Company of Canada Ltd.
Calgary, Alberta

NEIL F. PHILLIPS
Partner, Phillips Vineberg Goodman Phillips and Rothman
Montreal, Quebec

LOUIS J. PRADAL
Chief of American Division
Société Nationale des Pétroles d'Aquitaine
Pau, France

GILBERT RUTMAN
President, Aquitaine Company of Canada Ltd.
Vice-President Exploration and Production, and Member of the Executive Committee, Société Nationale des Pétroles d'Aquitaine
Pau, France

OFFICERS

President	GILBERT RUTMAN
Executive Vice-President	JACQUES PAYAN
Vice-President, Exploration	ANDRE DUMESTRE
Secretary	WILLIAM D. CLARK
Treasurer	MICHEL RAPACCIOLI

HEAD OFFICE

2000 Aquitaine Tower, 540 Fifth Avenue, S.W.
Calgary, Alberta, Canada

AUDITORS

Touche Ross & Co.
Calgary, Alberta, Canada

REGISTRARS AND TRANSFER AGENTS

Montreal Trust Company, Calgary, Montreal, Toronto and Vancouver
First National City Bank, New York

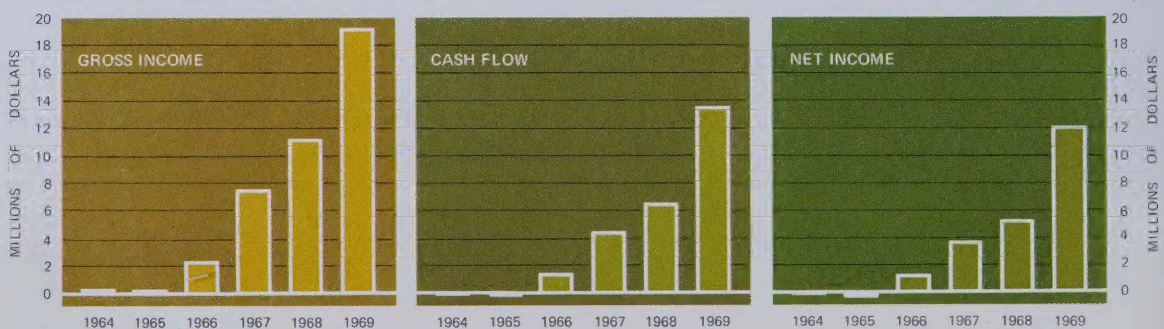
EXCHANGE LISTINGS

Toronto Stock Exchange, Montreal Stock Exchange,
American Stock Exchange

CONTENTS

COMPARATIVE HIGHLIGHTS

FINANCIAL	1969	1968
Gross Income (after royalties)	$ 18,921,822	$ 10,896,666
Net Income (before extraordinary item)	$ 11,089,301	$ 5,012,754
per share (on weighted average basis)	62.7¢	34.9¢
Net Cash from Operations	$ 13,237,923	$ 6,250,478
per share (on weighted average basis)	74.8¢	43.5¢
Shares Outstanding	18,700,000	16,500,000
Working Capital	$ 49,365,003	$ 15,775,957
Long-Term Debt	$ 32,263,318	$ 41,991,276
OPERATING		
Oil and Gas Liquids Production – net barrels	5,548,720	4,414,375
Proved and Probable Reserves:		
Oil and Gas Liquids—net barrels	283,758,000	283,480,000
Gas—net millions of cubic feet	587,000	377,000
Sulphur—net long tons	1,950,000	793,000
Land—gross acres	90,138,722	83,354,657
Land—net acres	39,509,711	30,034,837
Wells drilled—gross	42	30
Wells drilled—net	18.9	15.0



PRESIDENT'S REPORT

Solid progress marked the Company's sixth year of operation.

In June, the public purchased 2,200,000 shares of the Company's equity capital, providing the Company with proceeds of $52,655,153. Shareholders residing in Canada and the United States now hold 17% of Aquitaine's common shares, which are traded on the Toronto, Montreal and American stock exchanges.

Net income from operations in 1969 totalled $11,089,301, up 121.2% from 1968. Earnings per share on a weighted average basis were 62.7 cents, up 79.6%. Cash flow was $13,237,923, up 111.7%.

These figures exclude profit of $814,464 resulting from foreign currency devaluation in respect of the current portion of the Company's foreign bank loans, and cash receipt of $5,150,385 in partial prepayment of future gas deliveries from the Strachan and Ricinus West fields in west-central Alberta.

Exploratory and development drilling has confirmed that the Strachan-Ricinus discoveries will prove of major significance to Aquitaine. Further gas prepayments, which are interest-free, will be received as additional reserves are proved by drilling. These prepayments will be retired over a period of years by the application of part of the sales price of the gas when delivered. An active program of exploratory and development drilling is underway in the area, and construction will commence shortly on a gas plant which will have an inlet capacity of 220 million cubic feet of gas per day, and will be capable of producing 2500 barrels of condensate and 1900 long tons of sulphur daily. Aquitaine will be a major owner of the plant, which is scheduled for completion in 1971.

Industry interest in the Canadian Arctic, heightened initially by the prolific discoveries of Prudhoe Bay in Alaska, has intensified with the discovery in early January 1970 of oil at Atkinson Point in the Mackenzie Delta. Aquitaine holds 660,000 net acres in land-based or shallow-water permits in this general area. One block comprising 87,000 net acres lies 12 miles southeast of Atkinson while another of 104,000 net acres lies 26 miles northwest.

In September Aquitaine, through its wholly owned subsidiary Al-Aquitaine Exploration, Ltd., took a firm position in the Alaska North Slope play by acquiring 4,428 net acres in eight blocks at a State sale. Three of these blocks are located in the proposed Lisburne unit of the Prudhoe Bay field. Al-Aquitaine has also obtained additional land interests in Alaska.

Aquitaine's total net proved and probable reserves increased substantially during the year. Oil and natural gas liquids reserves, after 1969 production of 5,548,720 barrels, remained virtually unchanged at 283,758,000 barrels. Gas reserves rose 55.7% to 587 billion cubic feet. Sulphur reserves increased 145.9% to 1,950,000 long tons.

In October, the Company moved into the Aquitaine Tower, a new 20-storey downtown Calgary office building owned by Aquitaine. Office space not required by the Company has been leased to others.

Entering 1970, the Company's prospects appear excellent. Increased income is anticipated, and although the growth rate of the past six years cannot be expected to continue indefinitely, Aquitaine's healthy financial condition, substantial proved oil, gas and sulphur reserves, and strong land position in the promising exploratory regions of Canada and Alaska are sound bases for continued confidence and optimism.

On behalf of the Board,

Gilbert Rutman
President


ARCTIC OCEAN
ALASKA NORTH SLOPE See Detail Map Page 9
BEAUFORT SEA
BEAUFORT SEA See Detail Map - Page 9
Approx. Limit of Permanent Polar Ice
Prince Patrick Is.
Mackenzie King Is.
SVERDRUP BASIN
Melville Island
Viscount Melville Sound
Banks Island
ALASKA
Fairbanks
Atkinson Pt. Discovery Well
Inuvik
Rat Pass
Amundsen Gulf
Arctic Islands
DISTRICT OF FRAN
Victoria Island
U.S.A. CANADA
YUKON TERRITORY
Norman Wells
Oscar Creek
Great Bear Lake
Coppermine
GULF OF ALASKA
Whitehorse
Arctic Circle
DISTRICT OF MACKENZIE
NORTHWEST TERRITORIES
PACIFIC OCEAN
Juneau
Antoine Lake
Yellowknife
Great Slave Lake
DISTRICT OF KEEWAT
Fort Nelson
RAINBOW See Detail Map - Page 11
Prince Rupert
Lake Athabasca
Fort St. John
BRITISH COLUMBIA
ALBERTA
SASKATCHEWAN
MANITO
EDMONTON
COLD LAKE
STRACHAN - RICINUS See Detail Map — Page 7
Red Deer
Prince Albert
Kamloops
VANCOUVER
CALGARY
Saskatoon
VICTORIA
CANADA U.S.A.
WESTERN CANADA
MILES
Lethbridge
REGINA
WINNIPEG
U. S. A.

Exploration

HIGHLIGHTS

Aquitaine continued an aggressive policy of land acquisition and evaluation through 1969. The Company's 34-well exploratory drilling program was primarily directed to areas where gas discoveries had been made the previous year.

Wells drilled by Aquitaine and others have discovered major deep gas reservoirs at Strachan and Ricinus in west-central Alberta.

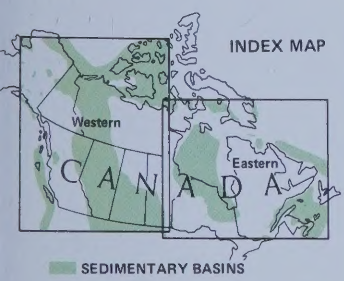
Commercial shallow gas discoveries were made on Company acreage in the Cold Lake area of west-central Saskatchewan.

The Company's policy of land evaluation was also continued in various other areas through surface, seismic and drilling activities.

Over 414,000 net acres of exploratory permits were acquired during the year in the Beaufort Sea bringing the Company's net holdings in that area to more than 3,000,000 acres. In this Arctic region, some 660,000 net acres are located on land or in shallow waters made highly prospective by the discovery of oil at Atkinson Point.

At the Alaska State sale of leases in the Prudhoe Bay area, Aquitaine purchased 4,428 net acres, and has since acquired a further 2,560 net lease acres in the Alaska North Slope.

Blocks of exploratory lands were also acquired in several other areas for future exploration.

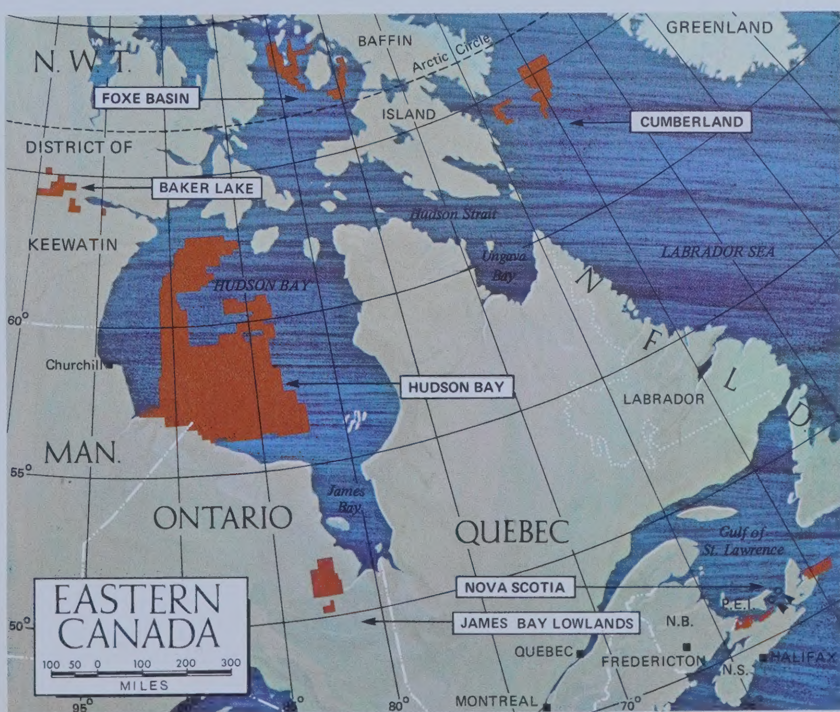


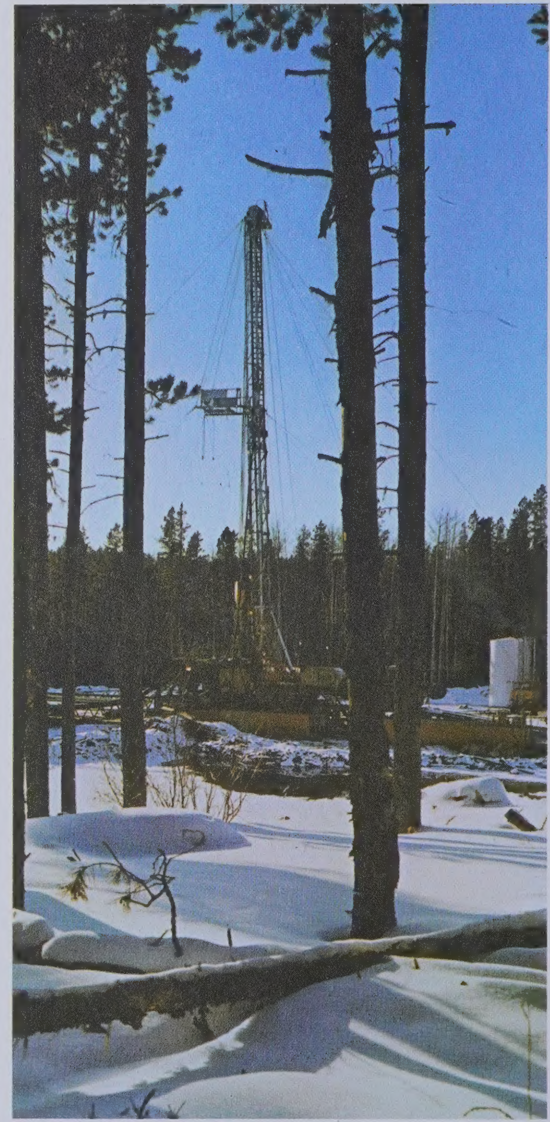
AQUITAINE'S PRINCIPAL HOLDINGS IN

CANADA & ALASKA

ACREAGE INTEREST

Wells of Major Interest





Service rig on a Strachan gas well nearing completion.

ALBERTA

The Strachan-Ricinus-Ram River area of west-central Alberta attracted concentrated industry attention in 1969. In this area the Company has 71,951 net acres, and will earn another 3,379 net acres through participation in a farm-in well which is currently drilling.

With only three wells drilled to date on the Strachan-Ricinus acreage in which it has an interest, the Company already has proved reserves exceeding 330 billion cubic feet of gas, 5,377,000 barrels of gas liquids, and 1,666,000 long tons of sulphur. The Company's excellent land position holds promise of substantial additional reserves in this area. Aquitaine will be a major owner of a gas processing plant at Ram River, scheduled for completion in 1971.

The three wells were completed in Devonian reefs at depths in the order of 14,000 feet. The thick pay zones of sour gas in each well have characteristics favorable to high production rates.

Sales contract prepayments were received in 1969 for reserves associated with the Strachan 10-31 and 7-32 wells. Prepayments will be received in 1970 in respect of the Ricinus 6-25 well which in early January was completed as a discovery on a separate structure having a pay thickness in excess of 600 feet.

The Company's holdings at Pembina River, north and west of Strachan, are being explored under a farm-out to another company which has performed an extensive seismic program and has options to drill three wells at no cost to the Company. If all of the drilling options are exercised, the Company's Pembina River lands will be reduced by some 3%.

At Wawa, south of the Pembina River block, the Company is currently participating in a farm-in well which will earn 2,517 acres net to Aquitaine.

Elsewhere in Alberta the Company shared in the drilling of one suspended oil well at Virgo and an exploratory dry hole at Rainbow. A farm-out of certain southwest Rainbow lands has been given under which a minimum of five wells will be drilled without cost to Aquitaine.


STRACHAN - RICINUS
WEST CENTRAL ALBERTA
AQUITAINE ACREAGE
LEASE
RESERVATION
FARM-IN RESERVATION
WELL STATUS
LOCATION OR DRILLING
OIL
GAS
MILES
INDEX MAP
T.50
COALSPUR
24,480 NET ACRES
PEMBINA RIVER
174,960 NET ACRES
T.45
WAWA
2,517 NET ACRES
R.20 W.5.M.
R.15
R.10
T.40
STRACHAN-RICINUS
(See Detail Map This Page)
ALBERTA FOOTHILLS
EXPLORATORY ACREAGE
MILES
T.35
RAM RIVER 14-21
12%
90%
6-1
7-32
STRACHAN FIELD
(DEEP D3 GAS)
PLAN OF TOWNSHIP SHOWING SECTIONS
WEST RICINUS FIELD
(DEEP D3 GAS)
10-33
15%
90%
6-25
7-13
RICINUS FIELD
(SHALLOW CARDIUM OIL AND GAS)
T.36
(D3 GAS)
T.35
75,330 NET ACRES
R.11
R.10
R.9
R.8 W.5M

CANADIAN ARCTIC

During the year the Company made three major additions to its holdings in the Beaufort Sea. One block comprising 261,456 gross acres, in which Aquitaine has a 40% interest, was purchased by work bonus tender at a Federal Sale. A half interest in another 249,525 acre block was purchased for cash, and a half interest in the third block of 369,793 acres was acquired for cash plus the assumption of work obligations on the block.

These acquisitions, together with acreage previously held in or near Liverpool Bay, have provided Aquitaine with 660,000 net permit acres either on land or in shallow waters of Beaufort Sea in the general area of the Atkinson Point oil discovery.

The Company has an additional 3,170,000 net acres in deeper waters in the Beaufort Sea.

In the Sverdrup Basin of the Arctic Islands the Company has a 100% interest in 497,134 acres, mostly offshore. Industry drilling is expected to be carried out in the area of these lands in 1970.

Further east, offshore exploratory permits were acquired by filing in Foxe Basin, and in Davis Strait southeast of Cumberland Peninsula. The Company's interest is 100% in the 4,750,000 acre Foxe Basin block, and 66⅔% in the 3,780,000 acre Cumberland block.

ALASKA NORTH SLOPE

Little detailed information has been publicly released on wells drilled in the Alaska North Slope. On the basis of the limited data available, the Company's interests in 8 leases purchased at the Alaska State sale in September are considered promising. These interests, totalling 4,428 net acres, vary from 12.5% to 34.26%. Three of the leases are located within the Prudhoe Bay Lisburne unit as proposed by the major operators in that field. Two of the leases, further east, are within three miles of a currently drilling exploratory well. A half interest in two 2,560-acre leases has been acquired since the sale, in areas some 70 miles south of the lands purchased at the sale.

The Company also holds 50,785 net acres in first priority rights, the value of which is doubtful pending final determination of State and Native rights to these and other lands in Alaska.

NORTHWEST TERRITORIES MAINLAND

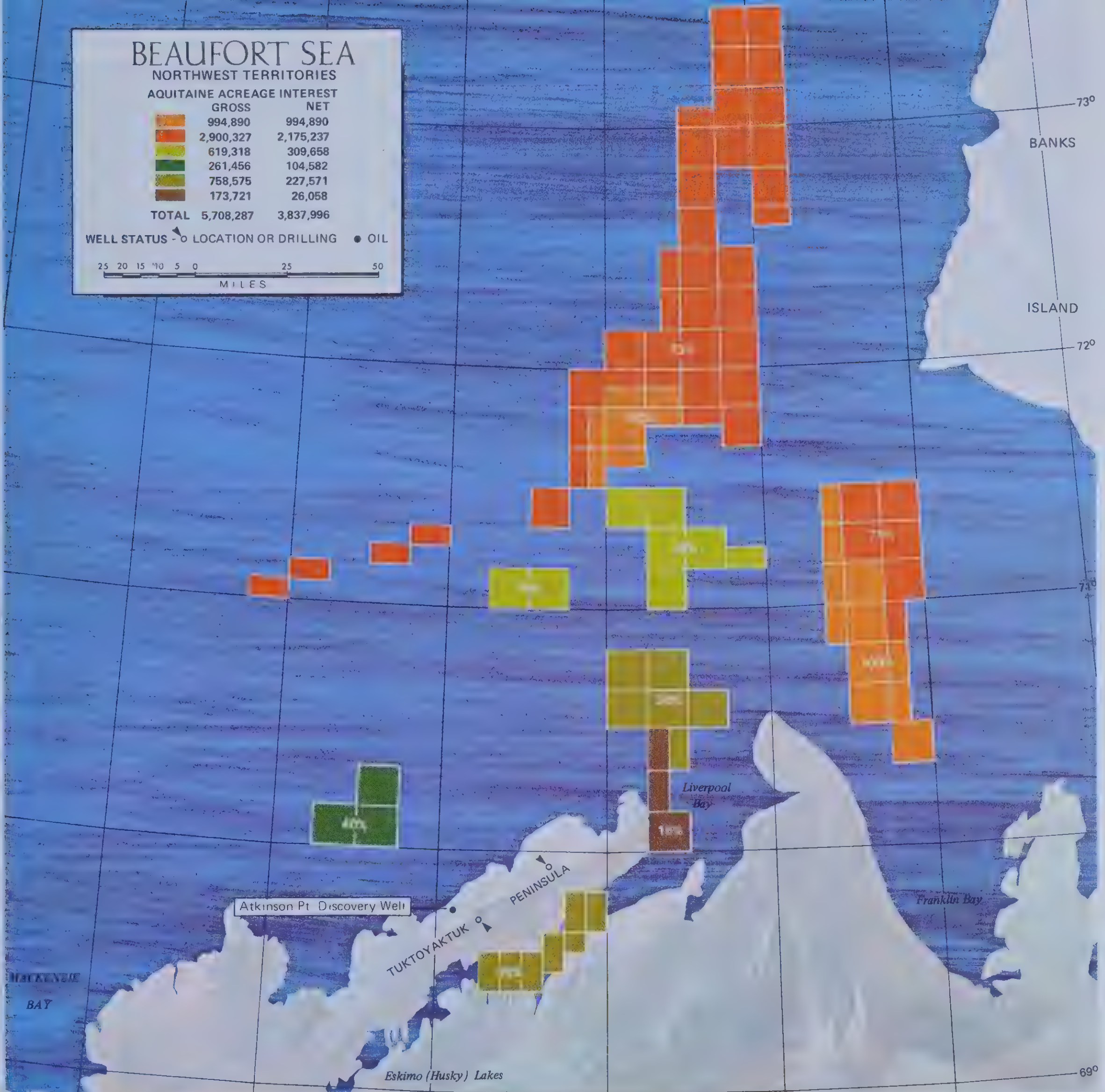
Two farm-ins were taken in the Northwest Territories, one at Rat Pass and one at Oscar Creek. Each requires seismic work to be done, with an option to drill to earn an interest in the farm-in lands. At Antoine Lake a farm-out was given which provides for seismic work and a well, with options to drill further wells, to earn an interest in certain of the Company's acreage dependent upon the number of wells drilled.

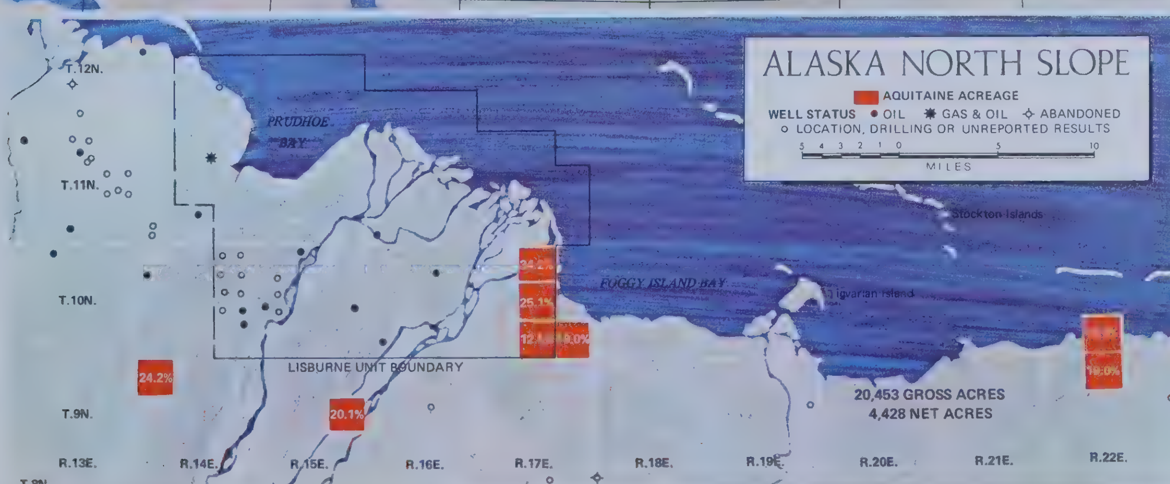
The level of exploratory drilling in the Northwest Territories is expected to be high over the next year or more, and the Company's lands are well located to benefit from the anticipated industry activity. Their location along the Mackenzie Valley would also be advantageous in the event that proposals for a Mackenzie Valley pipeline are approved.

HUDSON BAY AREA

An offshore well in mid-Hudson Bay, drilled to evaluate the 68,000,000 gross acre block owned by Aquitaine and its partners, was suspended before reaching scheduled depth. A combination of oceanographic and drilling factors in the summer of 1969 resulted in a slower operating rate than had been anticipated, and concern over ice build-up on the exit route through Hudson Strait forced departure from the drillsite in mid-October.

The geological indications of the well were encouraging, and the group has retained 84% of the block for further exploration. A seismic survey, the third large-scale geophysical program to be performed on the block, is scheduled for summer 1970. It is believed that results of further environmental and logistical studies, and technological advances in equipment, will extend the drilling season and improve operating performance when drilling is resumed by the group in Hudson Bay.


BEAUFORT SEA
NORTHWEST TERRITORIES
AQUITAINE ACREAGE INTEREST
GROSS NET
994,890 994,890
2,900,327 2,175,237
619,318 309,658
261,456 104,582
758,575 227,571
173,721 26,058
TOTAL 5,708,287 3,837,996
WELL STATUS - LOCATION OR DRILLING
OIL
25 20 15 10 5 0 25 50
MILES
73°
BANKS
ISLAND
72°
71°
Liverpool Bay
Atkinson Pt Discovery Well
PENINSULA
TUKTOYAKTUK
Franklin Bay
MACKENZIE BAY
Eskimo (Husky) Lakes
69°


ALASKA NORTH SLOPE
AQUITAINE ACREAGE
WELL STATUS • OIL ✸ GAS & OIL ✧ ABANDONED
○ LOCATION, DRILLING OR UNREPORTED RESULTS
5 4 3 2 1 0 5 10
MILES
T.12N.
T.11N.
T.10N.
T.9N.
T.8N.
PRUDHOE BAY
Stockton Islands
FOGGY ISLAND BAY
Tigvariak Island
LISBURNE UNIT BOUNDARY
24.2%
25.1%
24.2%
20.1%
20,453 GROSS ACRES
4,428 NET ACRES
R.13E.
R.14E.
R.15E.
R.16E.
R.17E.
R.18E.
R.19E.
R.20E.
R.21E.
R.22E.

Rainbow gas processing plant.

In the James Bay Lowlands where the Company has over 900,000 net acres, exploration work is scheduled for the coming winter season.

EAST COAST

The Company's 25% interest in 449,000 gross acres northwest of Nova Scotia will receive partial evaluation from test wells to be drilled in the vicinity in 1970. Aquitaine also holds an additional 260,000 acre block off northeast Cape Breton Island.

BRITISH COLUMBIA

Land holdings were increased in British Columbia, where seismic and drilling operations were carried out. The Company acquired 336,499 net acres in various areas at government sales. It also participated in drilling a wildcat well at Stanislas, which was abandoned in early 1970.

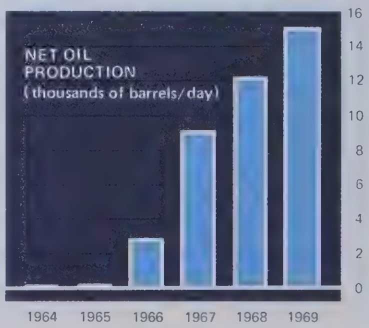
SASKATCHEWAN

The Company participated in the drilling of 23 exploratory wells in Saskatchewan. Six of these were part of a 52-well program conducted by industry in the central area of the province. The results of the program were generally disappointing, and the Company is currently reducing its acreage in that area.

The remaining 17 exploratory wells in Saskatchewan were drilled to search for Blairmore shallow gas reserves at Cold Lake near the Alberta border. Nine of these were successful, and by year-end substantial reserves had been proved up, and a sales contract had been negotiated. The Company's interest in the Cold Lake reserves is approximately 50%.

MINING EXPLORATION

The Company increased its exploration program for uranium and base metals by acquiring exploration rights to 2,000,000 acres, principally in the Baker Lake area of the Northwest Territories. Airborne surveys were conducted, followed up by geological parties working on the ground with helicopter support. Significant indications will be further examined in 1970 through aerial, surface and drilling programs.



Development Drilling

Development wells were drilled at Rainbow and Strachan in Alberta, and at Bromhead in Saskatchewan.

Two of the three development wells at Rainbow were productive.

At Strachan, the 7-32 well was successful in extending a major gas reservoir. The Company's 90% interest in that well supplied a large part of the reserves on which the gas sales prepayments referred to earlier were based.

At Bromhead, one dual producer was drilled, discovering a new productive zone in the Frobisher formation, and two wells were abandoned.

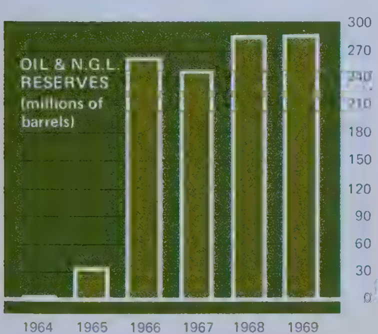
Production and Reserves

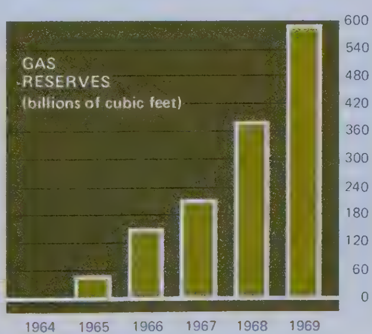
The Company's crude oil reserves are still concentrated in the Rainbow and Zama areas. The increase in 1969 production was due to the implementation of a miscible flood secondary recovery scheme at Rainbow, as well as to increases in demand for Alberta crude oil.

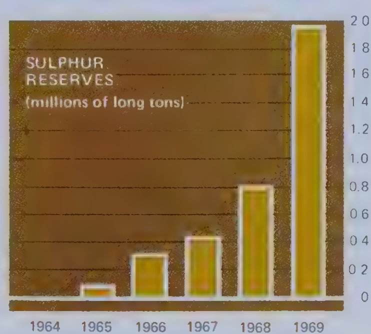
The major increases in reserves of gas, gas liquids and sulphur are the result of developments at Strachan-Ricinus. Considering the Company's holdings in that area, reserves in these categories may reasonably be expected to increase as the result of further drilling.

The Cold Lake gas reserves will provide immediate income through take-or-pay clauses in the sales contract.

Reserves figures at year-end are shown on the table of comparative highlights at the beginning of this report.







FINANCIAL REVIEW

EARNINGS

Operating revenues for the year showed an increase of 73.6%, amounting to $18,921,822 compared with $10,896,666 last year.

Net cash from operations was up 111.7% over last year, totalling $13,237,923, compared with $6,250,478 in 1968.

Net income for the year, before an extraordinary item, increased 121.2% to $11,089,301 from $5,012,754. Including profit of $814,464 realized on the current portion of long-term debt to foreign banks as a result of devaluation of the French franc, net income was up 137.5% to $11,903,765.

DEFERRED INCOME

The effect of devaluation on the balance of foreign debt, which has not been taken into current income, has been recorded as deferred income, to be taken into income in succeeding years as the debt is repaid.

Cash of $5,150,385 was received in partial prepayment of future gas deliveries from Strachan. These prepayments are interest free, and will be retired over a period of years by application of part of the sales price of the gas as delivered.

CAPITAL EXPENDITURES

Expenditures on lease acquisition, exploration, development and other capital assets totalled $29,802,634, an increase of 31.2% over $22,713,102 in 1968.

FINANCING

In June 1969 the Company sold 2,200,000 shares of its capital stock in the United States and Canada, netting $52,655,153. The Company's shares are now listed for trading on the Toronto, Montreal and American stock exchanges.

INCOME TAX

The Company was not subject to income taxes in 1969. On December 31, 1969, deductions of approximately $65,000,000 were available for credit against future taxable income.

INVESTMENTS IN OTHER COMPANIES

The Company in 1969 received dividends of $1,647,000 from Rainbow Pipe Line Company, Ltd., in which the Company holds a 30% interest.

In July, Banff Oil Ltd. issued 700,000 common shares to the public in the United States and Canada. As a result of this issue, the Company's holdings decreased from 43.7% to 38.6% of Banff's issued common shares.

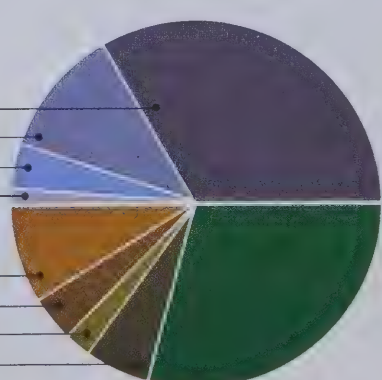
Both Rainbow Pipe Line Company, Ltd. and Banff Oil Ltd. showed increased profits for 1969.

WORKING CAPITAL

Working capital at the end of 1969 was $49,365,003, an increase of $33,589,046 over year-end 1968.

SOURCE AND DISPOSITION OF 1969 INCOME

Source	
Production	67.0%
Interest	22.3%
Dividends	8.7%
Other	2.0%
	100.0%
Disposition	
Interest on Long-Term Debt	18.0%
Operating Expenses	8.0%
General & Administrative Expenses	4.0%
Depreciation & Depletion	11.4%
Net Income	58.6%
	100.0%



Consolidated Statements of Income and Retained Earnings

For the Year Ended December 31, 1969

	1969	1968
INCOME		
Production revenue, after royalties	$12,671,379	$10,406,018
Interest income	4,220,773	311,804
Dividend income	1,647,000	—
Other income	382,670	178,844
	18,921,822	10,896,666
Deduct		
Operating expenses	1,518,309	917,987
General and administrative expenses	762,550	869,799
Interest on long-term debt	3,403,040	2,858,402
	5,683,899	4,646,188
Net cash from operations	13,237,923	6,250,478
Deduct non-cash expenses		
Provision for depletion	1,624,186	940,391
Provision for depreciation	524,436	297,333
	2,148,622	1,237,724
Net income for the year before extraordinary item	11,089,301	5,012,754
Extraordinary item (Note 5(i))		
Current gain on devaluation of foreign currency	814,464	—
NET INCOME FOR THE YEAR	$11,903,765	$ 5,012,754
Earnings per share:		
Before extraordinary item	62.7¢	34.9¢
Extraordinary item	4.6	—
Net income	67.3¢	34.9¢
RETAINED EARNINGS		
Retained earnings at beginning of year	$ 9,338,185	$ 4,430,327
Net income for the year	11,903,765	5,012,754
Expenses relating to issue of capital stock	(286,324)	(104,896)
Retained earnings at end of year	$20,955,626	$ 9,338,185

CONSOLIDATED BALANCE SHEET
at December 31, 1969

ASSETS

	1969	1968
CURRENT		
Cash	$ 519,793	$ 446,747
Short-term deposits	56,231,843	20,866,819
Accounts receivable	1,856,211	861,777
Due from affiliated company - Banff Oil Ltd.	—	1,553,957
Inventory of material and supplies, at cost	533,833	611,494
Prepaid expenses	155,821	696,127
	59,297,501	25,036,921
INVESTMENT AND OTHER ASSETS		
Investment in other companies, at cost (Note 3)		
Banff Oil Ltd. - shares	8,026,723	8,026,723
- advances	468,625	—
Rainbow Pipe Line Company, Ltd. - shares	1,800,000	1,800,000
- advances	1,647,000	—
Refundable deposits	144,503	158,188
	12,086,851	9,984,911
PROPERTY AND EQUIPMENT (Notes 2 and 4)	95,537,268	67,883,258
	$166,921,620	$102,905,090

Signed on behalf of the Board

Director

Director

LIABILITIES

	1969	1968
CURRENT		
Accounts payable and accrued liabilities	$ 1,293,635	$ 1,070,758
Due to parent company - Société Nationale des Pétroles d'Aquitaine	134,783	709,183
Due to affiliated company - Banff Oil Ltd.	17,214	—
Current portion of long-term debt	8,486,866	7,481,023
	9,932,498	9,260,964
LONG-TERM DEBT (Note 5)	32,263,318	41,991,276
ADVANCES FROM PARENT COMPANY		
Société Nationale des Pétroles d'Aquitaine	1,275,665	1,275,665
DEFERRED INCOME (Note 7)	8,514,036	—
	51,985,517	52,527,905

SHAREHOLDERS' EQUITY

	1969	1968
CAPITAL STOCK (Note 8)		
Authorized - 22,000,000 shares without nominal or par value		
Issued - 18,700,000 shares (1968 - 16,500,000 shares)	93,980,477	41,039,000
RETAINED EARNINGS	20,955,626	9,338,185
	114,936,103	50,377,185
	$166,921,620	$102,905,090

Consolidated Statement of Source and Disposition of Working Capital

For the Year Ended December 31, 1969

	1969	1968
SOURCE OF WORKING CAPITAL		
Net cash income from operations	$13,237,923	$ 6,250,478
Gain on devaluation of foreign currency		
(Note 5 (i)) - current	814,464	—
- non-current	3,363,651	—
Advances from parent company	—	6,485,069
Increase in long-term debt	2,932,493	13,657,351
Sale of capital stock, less issue expense	52,655,153	39,934,104
Prepayments received on account of future gas sales	5,150,385	—
	78,154,069	66,327,002
DISPOSITION OF WORKING CAPITAL		
Land acquisition and rentals	13,708,946	3,883,428
Exploration	9,868,457	8,505,895
Development drilling	456,605	375,306
Plant, production equipment and other development	964,096	6,503,834
Other property and equipment	4,804,530	3,444,639
Reduction in long-term debt	12,660,449	2,081,365
Reduction in advances from parent company	—	25,200,000
Increase in investment and other assets	2,101,940	2,525,084
	44,565,023	52,519,551
Increase in working capital	33,589,046	13,807,451
Working capital at beginning of year	15,775,957	1,968,506
Working capital at end of year	$49,365,003	$15,775,957

AUDITORS' REPORT

The Shareholders,
Aquitaine Company of Canada Ltd.

We have examined the consolidated balance sheet of Aquitaine Company of Canada Ltd. and its subsidiaries as at December 31, 1969 and the consolidated statements of income and retained earnings, and source and disposition of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1969 and the results of their operations and the source and disposition of their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
February 26, 1970

TOUCHE ROSS & CO.
Chartered Accountants.

Notes to Consolidated Financial Statements

December 31, 1969

1. PRINCIPLES OF CONSOLIDATION AND FOREIGN EXCHANGE

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, Rainbow Oil Company Inc. and Al-Aquitaine Exploration, Ltd.

Assets and liabilities and income and expenses of the companies which are in currencies other than Canadian dollars are translated into Canadian funds on the following basis:

(i) Current assets and liabilities at the exchange rate on December 31, 1969;

(ii) Property and equipment at rates in effect on the dates of acquisition;

(iii) Incomes and expenses at the average rate for the year; and

(iv) Long-term debt at the average rate of exchange between August 9, 1969 (the date of devaluation of the French franc) and December 31, 1969. At December 31, 1968, this debt was recorded at rates in effect on dates of acquisition.

2. ACCOUNTING POLICY

The company follows the full cost method of accounting for petroleum and natural gas properties. Under this concept, all costs, including a portion of administrative expenses, relating to the exploration for and development of oil, gas and mineral reserves are capitalized. Depletion of such costs is provided for by the unit of production method based on the estimated recoverable reserves of oil, gas and minerals. Under the full cost accounting concept, proceeds on disposal of properties and production equipment are normally applied to reduce the cost of the remaining assets.

Depreciation of production and plant equipment is provided for by the unit of production method.

Depreciation of other assets is provided for by the straight-line method based on the estimated service life of each group of assets.

3. INVESTMENT IN SHARES OF OTHER COMPANIES

At December 31, 1969, the companies owned:

(a) 2,331,922 common shares of Banff Oil Ltd. The quoted market value of these shares at that date was approximately $26,234,000. Due to the number of shares involved, this market value is not necessarily indicative of the amount that could be realized if this investment were to be sold.

(b) 162,000 common shares and 16,380 preferred shares, representing 30% of the issued capital of Rainbow Pipe Line Company, Ltd. The remainder of that company's shares are held by Imperial Oil Limited, Mobil Oil Canada, Ltd., and Banff Oil Ltd. There was no quoted market value for these shares at that date.

4. PROPERTY AND EQUIPMENT

	Investment at cost	*Accumulated depletion and depreciation*	*Net Investment 1969*	*Net Investment 1968*
Petroleum and natural gas properties	$77,936,106	$3,273,424	$74,662,682	$52,060,633
Production and plant equipment	12,466,896	730,129	11,736,767	11,508,903
Office building	8,219,010	89,501	8,129,509	—
Other capital assets	917,509	101,871	815,638	718,466
Work in progress	192,672	—	192,672	3,595,526
	$99,732,193	$4,194,925	$95,537,268	$67,883,258

5. LONG-TERM DEBT

6% bank loan secured by proceeds from production of certain properties, repayable during the two year period ending December 31, 1971	$ 4,000,000
9½% foreign bank loans repayable during the four year period 1970-1973 (French francs 169,996,500) (i) (ii) (iii)	33,073,249
7½% foreign bank loans repayable September 1971 (French francs 14,153,989) (i) (iii)	2,753,636
Various mortgages on real estate owned by the company	923,299
	40,750,184
Less: Current portion	8,486,866
	32,263,318

(i) During August 1969 the French franc was devalued by approximately 11%, reducing the liability expressed in Canadian dollars by $4,178,115. Of this reduction, $3,363,651 has been recorded in a deferred income account and $814,464 (the profit applicable to the scheduled 1970 repayment of 32,999,450 French francs) has been taken into income as an extraordinary item.

(ii) The rate of interest fluctuates in relation to the current rate of French Crédit National.

(iii) These loans are guaranteed by the parent company Société Nationale des Pétroles d'Aquitaine.

6. INCOME TAXES

Under Canadian income tax law, the company is entitled for tax purposes to deduct intangible development costs, namely lease acquisition, exploration and drilling costs, which have been capitalized for accounting purposes. As a result, no income taxes are payable for the year ended December 31, 1969, and deductions of approximately $45,250,000 were available at December 31, 1969, to be carried forward against future taxable income.

The Canadian Institute of Chartered Accountants recommends income tax allocation for all differences in timing of deductions for tax and accounting purposes; however, management is of the opinion that tax allocation with respect to intangibles is not appropriate and has made no provision therefor. This view of management conforms with general practice in the oil and gas industry in Canada and the United States and is accepted by the American Institute of Certified Public Accountants. If deferred income tax accounting had been followed by the company with respect to intangibles, deferred income taxes for the year 1969 would have amounted to approximately $3,141,857 and income would have been reduced to $8,761,908.

The company has adopted the policy of providing for deferred income taxes on all timing differences other than those relating to intangibles, but to December 31, 1969, no such provision has been required. Allowances in respect of undepreciated capital cost amounting to approximately $20,231,000 at December 31, 1969, may be claimed for tax purposes in future years.

7. DEFERRED INCOME

This item is made up of the $3,363,651 foreign currency devaluation credit (Note 5(i)) and $5,150,385 collected as prepayments on account of future gas sales.

8. CAPITAL STOCK

On June 16, 1969, 2,200,000 common shares were issued pursuant to an underwriting agreement dated June 5, 1969, between the company, Lehman Brothers, Paribas Corporation, Dominion Securities Corporation Limited and Greenshields Incorporated for a consideration of $36,795,000 U.S. and $13,227,500 Canadian.

9. EXECUTIVE REMUNERATION

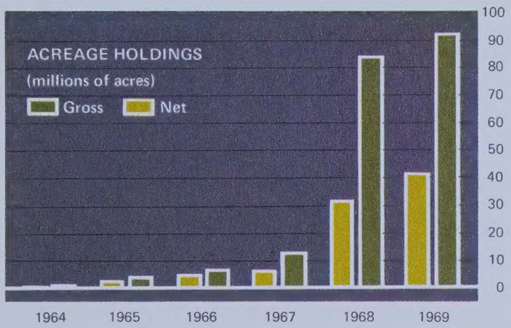
The aggregate remuneration paid to officers amounted to $143,180 in 1969, which includes $40,076 paid to those who are also directors of the company.

10. COMMITMENTS AND CONTINGENCIES

(a) In March 1966 an action entitled David H. Schoenbaum v. Bradshaw D. Firstbrook, et al was commenced in the United States District Court for the Southern District of New York. The plaintiff, a stockholder of Banff Oil Ltd., brought an action on behalf of Banff against the company, Banff and others (including the directors of Banff), alleging violations of certain United States securities laws in connection with two sales by Banff of its stock, including a sale of 500,000 common shares to the company for an allegedly inadequate consideration. The District Court in March 1967 granted summary judgment dismissing the action, but that dismissal was reversed as to the company and certain others by the United States Court of Appeals on December 30, 1968. A petition to review that determination was denied by the Supreme Court of the United States on May 19, 1969, and the case has been remanded to the District Court for discovery proceedings in preparation for trial. The company's trial counsel, Messrs. Sullivan & Cromwell, basing their opinion on the limited inquiry conducted by them in connection with the motion for summary judgment, have advised that they believe the action will not succeed against the company. In the opinion of the management of the company, the outcome of this litigation will not have a materially adverse effect upon the company's financial position.

(b) The company has guaranteed indebtedness of Rainbow Pipe Line Company, Ltd. in the amount of $6,300,000.

Acreage Holdings



	1969		1968	
PETROLEUM & NATURAL GAS	Gross Acres	Net Acres	Gross Acres	Net Acres
LEASES				
Alberta	343,147	162,542	295,846	131,945
Saskatchewan	401,768	90,134	299,838	62,589
British Columbia	21,232	16,942	11,091	9,853
Alaska North Slope	25,573	6,988	—	—
RESERVATIONS AND PERMITS				
Alberta	870,845	562,384	694,436	476,382
Saskatchewan	1,819,640	774,026	2,465,881	833,484
British Columbia	1,410,197	931,972	769,992	586,502
Northwest Territories Mainland	2,579,571	2,321,614	2,151,941	1,936,747
Beaufort Sea	5,708,287	3,837,996	4,827,513	3,423,778
Arctic	1,687,192	1,389,678	497,134	497,134
Manitoba	1,563,105	397,011	1,563,105	397,011
Ontario	4,571,129	1,175,167	986,560	246,640
Hudson Bay Offshore	57,356,386	18,037,977	68,326,857	21,096,861
Foxe Basin	4,756,377	4,756,377	—	—
Eastern Offshore	4,558,728	2,711,910	—	—
Total Petroleum & Natural Gas Acreage	87,673,177	37,172,718	82,890,194	29,698,926
Bituminous Sands Lease	49,743	24,871	49,743	24,871
Mineral Permits and Claims	2,415,802	2,312,122	414,720	311,040
TOTAL ACREAGE HOLDINGS	90,138,722	39,509,711	83,354,657	30,034,837

Six-Year Summary (1964 - 1969)

	1969	1968	1967	1966	1965	1964
FINANCIAL						
Sales	$ 12,671,379	$ 10,406,018	$ 7,291,117	$ 2,201,111	$ 74,813	$ 24,524
Interest, dividend and other income	6,250,443	490,648	27,614	—	—	—
Gross Income	18,921,822	10,896,666	7,318,731	2,201,111	74,813	24,524
Operating expenses	1,518,309	917,987	422,187	207,375	34,600	11,749
Financial expenses	3,403,040	2,858,402	1,867,714	244,527	5,434	1,131
General and administrative expenses	762,550	869,799	852,796	534,441	130,241	40,032
Total Expenses	5,683,899	4,646,188	3,142,697	986,343	170,275	52,912
Net cash from operations	13,237,923	6,250,478	4,176,034	1,214,768	−95,462	−28,388
Depletion and depreciation	2,148,622	1,237,724	630,626	136,934	24,370	44,695
Net income before extraordinary item	11,089,301	5,012,754	3,545,408	1,077,834	−119,832	−73,083
Per share	62.7¢	34.9¢	25.3¢	7.7¢	−0.9¢	−0.5¢
Extraordinary item	814,464	—	—	—	—	—
Net income for the year	$ 11,903,765	$ 5,012,754	$ 3,545,408	$ 1,077,834	$ −119,832	$ −73,083
Per share	67.3¢	34.9¢	25.3¢	7.7¢	−0.9¢	−0.5¢
Working capital	$ 49,365,003	$ 15,775,957	$ 1,968,506	$−1,485,617	$ 1,085,437	$ 226,639
Property, plant and equipment	95,537,268	67,883,258	46,407,880	27,813,896	7,492,643	1,404,826
Long-term debt	32,263,318	41,991,276	30,415,291	8,620,042	—	—
Shareholders' equity	114,936,103	50,377,185	5,430,327	1,884,919	807,085	926,917
Land acquisition and rentals	$ 13,708,946	$ 3,883,428	$ 6,121,045	$ 10,214,488	$ 1,559,733	$ 845,765
Exploration	9,868,457	8,505,895	6,839,925	4,169,462	1,724,644	351,968
Development drilling	456,605	375,306	1,465,140	4,199,203	2,051,655	118,384
Plant, production equipment and other development	964,096	6,503,834	4,208,572	1,762,992	649,349	46,785
Other property and equipment	4,804,530	3,444,639	589,927	112,041	126,808	86,618
OPERATING						
Production of oil and gas liquids - barrels	5,548,720	4,414,375	3,300,546	1,011,050	34,231	10,356
Acreage—gross	90,138,722	83,354,657	11,622,745	5,794,065	3,177,603	469,779
—net	39,509,711	30,034,837	5,014,028	2,965,537	1,720,402	341,340
Wells drilled—gross	42	30	28	44	32	26
—net	18.9	15.0	13.0	18.5	9.2	7.2
RESERVES						
Oil and gas liquids—barrels	283,758,000	283,480,000	242,792,000	259,373,000	31,963,000	358,277
Natural gas—million cubic feet	587,000	377,000	208,000	145,500	43,500	—
Sulphur—long tons	1,950,000	793,000	423,000	302,000	75,000	—

Aquitaine Tower in downtown Calgary. Head Office for the Company, the building opened for occupancy in mid-1969.

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